

EXECUTIVE SUMMARY

U.S. TRADE WITH THE WORLD

AN ESTIMATE OF 2000 LOST U.S. FEDERAL INCOME TAX REVENUES

DUE TO

OVER-INVOICED IMPORTS AND UNDER-INVOICED EXPORTS

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Objective

The objective of this research is to estimate the impact of over-invoiced imports and under-invoiced exports on U.S. federal income tax revenues during 2000. The inclusion of over-invoiced imports and under-invoiced exports in business tax returns artificially lowers taxable income and federal income tax liability. This research determines the estimate of lost tax revenue due to abnormal international trade pricing and is based on pricing norms, (interquartile range), as specified in the section 482 regulations of the Internal Revenue Service tax code.

Data

This research is based on the U.S. import and export data produced by the U.S. Department of Commerce, Bureau of Census, and contained in the U.S. Merchandise trade database. This is the same database used to determine the U.S. balance of trade. We assume that the U.S. Treasury, U.S. Customs Bureau, and the U.S. Department of Commerce maintain a quality control system to minimize errors and produce and sell accurate data.

Methodology - Summary

1. We determined the median price, lower quartile export price and the upper quartile import price for every commodity exported and imported to and from every country. (There are over 15,000 import commodity codes and over 8,000 export commodity codes. There are over 230 countries that trade with the United States.)
2. We evaluated every import transaction and compared it to the country specific import upper quartile price to determine if it was over-valued.. We determined the dollar value of over- valuation for every import transaction.
3. We evaluated every export transaction and compared it to the country specific export lower quartile price to determine if it was under-valued. We determined the dollar value of under-valuation for every export transaction.
4. We determined the dollar value impact on the cost of goods sold due to the over-valuation for every import transaction. We determined the dollar value impact on sales revenue due to under-valuation for every export transaction.
5. We determined the dollar value impact of over-stated cost of goods sold and under-stated sales revenues on taxable income.
6. We calculated the tax loss for every transaction assuming a 34% tax rate.
7. **The total estimated tax loss for 2000 is \$44.55 Billion.** (See Chart A)

Examples of Abnormal Transactions

In Charts B and C we give some examples of abnormally priced transactions that are contained in the U.S. Merchandise Trade Database. We have observed thousands of abnormally priced transactions in all U.S. Customs Districts and with all countries in the world.

Discussion

We believe this is a conservative estimate for the following reasons:

1. We only analyze quantifiable commodities that have units of measure such as kilograms, tons, units, etc. If we assume the same proportion of over and under invoicing for the commodities that do not specify quantities, our estimated tax loss would be significantly higher.
2. We use the interquartile range as specified by the IRS 482 regulations to determine abnormality. However, we determine the magnitude of over or under pricing by comparing the stated prices to the interquartile prices. According to IRS code, abnormal prices would be adjusted back to the median price.

**CHART A: TOP 25 SOURCES OF LOST U.S. TAXES DUE TO
ABNORMAL TRADE PRICING**

2000 Income Shifted and Federal Income Tax Losses - (\$ millions)

	Tax Loss @34%	Income Shifted
All Countries	\$44,550	\$131,030
Canada	\$5,370	\$15,796
Japan	\$4,791	\$14,091
Mexico	\$3,355	\$9,866
United Kingdom	\$3,001	\$8,827
Germany	\$2,825	\$8,309
China	\$2,794	\$8,216
Netherlands	\$2,399	\$7,057
Korea, South	\$2,176	\$6,400
Taiwan	\$1,714	\$5,041
France	\$1,616	\$4,753
Singapore	\$1,365	\$4,014
Italy	\$1,153	\$3,390
Hong Kong	\$1,037	\$3,050
Malaysia	\$911	\$2,679
Ireland	\$830	\$2,442
Switzerland	\$764	\$2,248
Thailand	\$687	\$2,020
Brazil	\$616	\$1,813
Australia	\$604	\$1,776
Philippines	\$598	\$1,758
Belgium	\$556	\$1,635
Israel	\$437	\$1,286
India	\$393	\$1,155
Spain	\$354	\$1,041
Sweden	\$258	\$758

DAILY LOST U.S. INCOME TAX REVENUES

$\$44,550,495,108/365 = \$122,056,151 \text{ PER DAY}$

Chart B: Abnormally High U.S. Imports

Sunflower Seeds	France	\$ 5,519.00/kg
Toothbrushes	United King.	\$ 5,655.00/unit
Hacksaw Blades (Base Metal)	Germany	\$ 5,485.00/unit
Single Edge Razor Blades for Shaving	India	\$ 461.00/unit
Vinegar	Canada	\$ 5,430.00/ltr
Cotton Waste	Mexico	\$ 2,820.00/kg
Flashlights	Japan	\$ 5,000.00/unit
Wooden Dowel Rods – Plain	Taiwan	\$ 1,045.00/meter
Sawdust	United King.	\$ 642.00/kg
Phonograph Records	Thailand	\$ 5,670.00/unit
Ladders of Iron or Steel	Slovenia	\$ 15,852.00/unit
Sugar	Slovakia	\$ 3,000.00/kg
Printers – Ink Jet	Colombia	\$179,000.00/unit
Television Antennas – Receiving Only	Israel	\$ 3,201.00/unit
Rags – Used, Unsorted	Denmark	\$ 343.00/kg
Lard	Canada	\$ 484.00/kg
Hypodermic Syringes	Switzerland	\$ 2,306.00/unit
Batteries – Wrist Watch	China	\$ 935.00/unit
Washers – Not Lock Washers, Iron or Steel	Hong Kong	\$ 6,000.00/kg
Open-End Wrenches – Base Metal	France	\$ 1,089.00/unit
Pineapples	Malaysia	\$ 500.00/kg

Chart C: Abnormally Low U.S. Exports

Truck Caps	Mexico	\$ 4.09/unit
Military Aircraft – New	Australia	\$19,445.00/unit
Turbojet Aircraft Engines	Romania	\$10,000.00/unit
Cameras – Single Lens Reflex	Mexico	\$ 3.30/unit
Soybeans	Netherlands	\$ 1.58/ton
Automatic Teller Machines	Salvador	\$ 35.93/unit
Bulldozers – Self Propelled	Mexico	\$ 527.94/unit
Tractor Radial Tires – New	Argentina	\$ 38.89/unit
Missile/Rocket Launchers	Bolivia	\$ 40.00/unit
Toilets – Porcelain	Hong Kong	\$ 1.08/unit
Wrist Watches – Precious Metal	Colombia	\$ 4.00/unit
Diamonds – Not Industrial	Belgium	\$ 3.08/carat
Video Projectors – Color	Malta	\$ 28.71/unit
Dynamite	Canada	\$.35/kg
Human Blood Plasma	Mexico	\$ 2.64/kg
Missile/Rocket Launchers	Taiwan	\$ 82.75/unit
Prefabricated Buildings	St. Lucia	\$.82/unit
Television Antennas – Receiving Only	China	\$.04/unit
Swimwear – Women’s or Girls’	Mexico	\$.79/doz
Clinical Thermometers	Germany	\$.05/unit
Radial Tires – Bus/Truck	United King.	\$ 8.46/unit